

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 AID-20 IGA-02 CIAE-00 DODE-00

PM-07 H-03 INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01

PRS-01 SP-03 SS-20 USIA-15 EB-11 CIEP-02 TRSE-00

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P R 221118Z JUL 74

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC PRIORITY 70

INFO AMEMBASSY BANGKOK

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY CANBERRA

AMEMBASSY TOKYO

CINCPAC

C O N F I D E N T I A L VIENTIANE 5731

E.O. 11652: GDS

TAGS: EAID, LA

SUBJECT: LAO FINANCIAL CRISIS

1. TO MY SURPRISE, FOREIGN MINISTER PHOUMI VONGVICHIT CALLED AT THE EMBASSY TODAY. ALTHOUGH HE MURMURED THAT HE WAS REPAYING MY MANY CALLS ON HIM, IT WAS APPARENT THAT THE PURPOSE OF HIS VISIT WAS TO DISCUSS THE CURRENT LAO FINANCIAL CRISIS.

2. PHOUMI STATED THAT ANTICIPATING THE CURRENT SHORTAGE OF FOREIGN EXCHANGE, PRIME MINISTER SOUVANNA PHOUMA HAD DIRECTED THAT ALL FRIENDLY COUNTRIES BE APPROACHED TO SEE WHETHER THEY WOULD INCREASE THEIR AID TO LAOS. THE FOREIGN MINISTRY WAS PRESENTLY PREPARING A LETTER OR NOTE ON THIS SUBJECT BUT THE GRAVITY OF THE CURRENT
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SITUATION WAS SUCH THAT HE WAS APPROACHING DIRECTLY THE

REPRESENTATIVES OF THOSE COUNTRIES WHICH HAD HELPED LAOS IN THE PAST. PHOUMI STATED THAT THE PRESENT SITUATION WAS VERY DIFFICULT. IMPORTANT DECISIONS HAD TO BE TAKEN DESPITE THE ILLNESS OF THE PRIME MINISTER AND THE ECONOMIC CRISIS COULD IMPERIL PROGRESS BEING MADE ON THE NATIONAL UNIFICATION WHICH ALL PARTIES DESIRED. HE EXPRESSED THE FERVENT HOPE THAT THE U.S. WOULD BE GENEROUS AND WOULD HELP SEE LAOS THROUGH ITS CURRENT DIFFICULTIES.

3. I REPLIED THAT WE HAD BEEN IN TOUCH WITH WASHINGTON AS RECENTLY AS LAST WEEK IN RESPONSE TO FINANCE MINISTER NGON SANANIKONE'S APPEAL FOR ADDITIONAL AID AND HAD BEEN INFORMED THAT THERE SIMPLY WERE NO FUNDS AVAILABLE FOR THIS PURPOSE. I SAID THAT I HAD ALWAYS BEEN VERY CANDID WITH PHOUMI AND THAT IT WOULD BE WRONG FOR ME TO RAISE ANY HOPES OF AN ADDITIONAL CONTRIBUTION. I INQUIRED WHETHER THE GOVERNMENT INTENDED TO IMPLEMENT THE RECOMMENDATIONS OF THE IMF IN THE NEAR FUTURE, NOTING THAT WHILE I DID NOT WISH TO GIVE THE IMPRESSION THAT WASHINGTON WOULD CHANGE ITS MIND, ANY DONOR COUNTRY WOULD DOUBTLESS WISH TO SEE THE IMF PROGRAM CARRIED OUT.

4. PHOUMI STATED THAT THE GOVERNMENT DID NOT INTEND TO TAKE A DECISION ON THE RECOMMENDATIONS OF THE IMF UNTIL AFTER IT WOULD ASCERTAIN WHETHER ADDITIONAL FOREIGN SUPPORT COULD BE OBTAINED. THE QUESTION OF A POSSIBLE DEVALUATION WAS ONE THAT WAS VERY DIFFICULT FOR THE GOVERNMENT TO HANDLE. HE HAD SEEN THE KIP DEVALUED MANY TIMES IN HIS LIFETIME AND HE WONDERED WHERE DEVALUATION OF THE KIP WOULD STOP. FURTHERMORE ANY DEVALUATION WOULD RESULT IN A RISE IN PRICES WHICH WOULD REQUIRE THE GOVERNMENT TO INCREASE THE SALARIES OF SOLDIERS AND CIVIL SERVANTS. THIS IN TURN WOULD HAVE A PROFOUNDLY DESTABILIZING EFFECT.

5. I SAID THAT I WOULD OF COURSE REPORT HIS VIEWS TO WASHINGTON BUT REPEATED THAT NO ADDITIONAL FUNDS SHOULD BE ANTICIPATED. IN MY VIEW THE RLG SHOULD ACT QUICKLY AS THE CURRENT ECONOMIC SITUATION WOULD BECOME MORE GRAVE WITH THE PASSAGE OF TIME.

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6. PHOUMI REPEATED THAT THE RLG VERY MUCH HOPED FOR A FAVORABLE RESPONSE AND THAT ALL FRIENDLY COUNTRIES WERE BEING APPROACHED. HE SAID HE HOPED THAT THE AMERICAN GOVERNMENT WOULD VIEW THE NEEDS OF LAOS WITH COMPASSION.

7. AFTER THIS MEETING WITH PHOUMI, AID DIRECTOR MANN AND I MET WITH FINANCE MINISTER NGON WHO STATED THAT THE VIENTIANE SIDE IN THE PGNU WAS FIRMLY LINED UP BEHIND THE IMF RECOMMENDATIONS. THE

PL HOWEVER WERE SHOWING INCREASING UNWILLINGNESS TO GO ALONG WITH A DEVALUATION OF THE KIP AND HAD INSISTED THAT THE RLG PASS THE HAT AMONG POTENTIAL DONORS PRIOR TO REACHING ANY DECISION. THE PATHET LAO WERE DEEPLY CONCERNED OVER THE LIKELIHOOD OF FURTHER DEVALUATIONS, THEY WERE CONCERNED LEST THIS DEVALUATION APPEAR TO BE THEIR FAULT, THEY WERE INCLINED TO BELIEVE THE CRISIS WAS SOMEHOW CAUSED BY THE AMERICANS AND THE THAI, AND THEY WERE INSISTENT THAT SOME FORM OF ECONOMIC CONTROLS BE IMPOSED TO AVOID REPETITIONS OF THE CURRENT CRISIS.

8. MANN AND I EXPLAINED THE SHORTCOMINGS INHERENT IN FINANCIAL CONTROLS AND EMPHASIZED THE IMPORTANCE OF PROMPT ACTION IN IMPLEMENTING THE IMF'S RECOMMENDATIONS. NGON REPLIED THAT WE WERE PREACHING TO THE CHOIR AND THAT RUMORS AND MISINFORMATION WERE ALREADY DRIVING UP THE PRICES OF BASIC COMMODITIES IN THE VIENTIANE MARKET. HE SAID HE COULD KEEP THE BANKS CLOSED UNTIL LATE THIS WEEK BUT THAT IT WAS IMPERATIVE THAT THE PATHET LAO UNDERSTAND THE GRAVITY OF THE CURRENT SITUATION. HE SAID HE SHARED OUR CONCERN REGARDING CONTROLS BUT HAD AUTHORIZED HIS PL SECRETARY OF STATE TO REVIEW ESSENTIAL IMPORTS AND TO COME UP WITH RECOMMENDATIONS. HE NOTED THAT WHILE DEPUTY PRIME MINISTER LEUAM HAD AGREED TO PHOUMI APPROACHING VARIOUS COUNTRIES, IT WAS OBVIOUS THAT THE SOCIALIST BLOC WOULD NOT CONTRIBUTE AND THAT FURTHER ASSISTANCE FROM DONOR COUNTRIES WAS OT OF THE QUESTION. LEUAM UNDERSTOOD THE PROBLEM PERFECTLY AND WAS NOT SEEKING TO AVOID RESPONSIBILITY FOR RECOMMENDING DEVALUATION.

9. COMMENT: THE FACT THAT PHOUMI CALLED ON ME TO DISCUSS THE ECONOMIC SITUATION INDICATES THE SERIOUSNESS WITH WHICH THE PATHET LAO VIEW THE PRESENT ECONOMIC PLIGHT OF LAOS. PHOUMI'S MANNER WAS THOUGHTFUL AND RESTRAINED AS USUAL. THERE WAS NO HINT IN HIS PRESENTATION OF ANY BELIEF THAT WE HAD STIMULATED THIS CRISIS TO FURTHER OUR POLITICAL AIMS. IT APPEARS TO ME THAT THE PATHET LAO
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AR CONFRONTING A SERIOUS DILEMMA AND ARE CASTING ABOUT FOR FOREIGN ASSISTANCE IN ORDER TO AVOID TAKING THOSE DECISIONS WHICH THE PGNU MUST TAKE.
WHITEHOUSE

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